

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Peninsula Township</b>	County <b>Grand Traverse</b>
Audit Date <b>March 31, 2004</b>	Opinion Date <b>July 26, 2004</b>	Date Accountant Report Submitted to State: <b>September 30, 2004</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

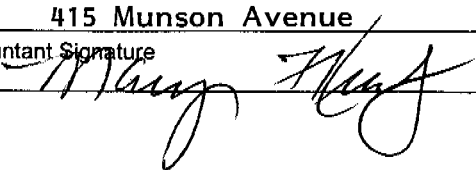
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.		X	
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>Dennis, Gartland &amp; Niergarth, P.C.</b>			
Street Address <b>415 Munson Avenue</b>	City <b>Traverse City</b>	State <b>MI</b>	ZIP <b>49686</b>
Accountant Signature 		9-30-04	

**Peninsula Township**  
**Grand Traverse County, Michigan**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

March 31, 2004

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DENNIS, GARTLAND & NIERGARTH P.C.

Business and Financial Advisors  
*Our clients' success – our business*

Thomas E. Gartland, CPA  
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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Township Board  
Peninsula Township

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Peninsula Township** (the "Township") as of and for the nine months ended March 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Peninsula Township. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Peninsula Township as of March 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the nine months then ended, in conformity with accounting principles generally accepted in the United States of America.

As noted in Note A, the Township has partially implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of March 31, 2004.

The Township has not presented a management discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Member of



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In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2004 on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit

The budgetary comparison information on pages 26 through 28 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Dennis, Gartland & Niergarth, P.C.*

July 26, 2004

**Peninsula Township**  
**STATEMENT OF NET ASSETS**  
March 31, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and equivalents	\$ 2,172,692	\$ 214,078	\$ 2,386,770
Investments	98,949	329,827	428,776
Cash due from county	-	23,500	23,500
Accounts and advances receivable	11,928	11,974	23,902
Special assessments receivable	-	136,348	136,348
Property taxes receivable	59,141	-	59,141
Internal balances	54,620	27,086	81,706
Due from other governmental units	47,970	-	47,970
Interest receivable	-	14,311	14,311
Prepaid expenditures and deferred charges	11,357	1,611	12,968
Total current assets	2,456,657	758,735	3,215,392
Capital assets, net of accumulated depreciation	5,082,167	3,838,859	8,921,026
Other assets			
Unearned long-term lease income	-	25,368	25,368
Special assessments receivable, net of current portion	-	959,756	959,756
Riser and benefit charges receivable	-	88,902	88,902
Bond issuance costs, net	-	11,926	11,926
Total other assets	-	1,085,952	1,085,952
Total assets	\$ 7,538,824	\$ 5,683,546	\$ 13,222,370
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 230	\$ 11,005	\$ 11,235
Accrued interest	64,978	17,242	82,220
Due to other governmental units	10,779	-	10,779
Deposits and advances	-	240	240
Current portion of long-term debt	1,584,096	246,131	1,830,227
Total current liabilities	1,660,083	274,618	1,934,701
Non current liabilities			
Long-term obligations	2,460,843	2,186,766	4,647,609
Total liabilities	4,120,926	2,461,384	6,582,310
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,088,173	1,388,720	3,476,893
Restricted	22,220	-	22,220
Unrestricted	1,307,505	1,833,442	3,140,947
Total net assets	3,417,898	3,222,162	6,640,060
Total liabilities and net assets	\$ 7,538,824	\$ 5,683,546	\$ 13,222,370

The accompanying notes are an integral part of these financial statements.

# Peninsula Township

## STATEMENT OF ACTIVITIES

For the nine months ended March 31, 2004

	Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
		Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
						Governmental Activities	Business-type Activities	Total
Primary government								
Governmental activities								
General government		\$ 614,674	\$ -	\$ 233,606	\$ -	\$ (381,068)	\$ -	\$ (381,068)
Fire		176,060	-	-	57,600	(118,460)	-	(118,460)
Police		44,350	-	-	-	(44,350)	-	(44,350)
Bowers Harbor Improvement		265	-	700	-	435	-	435
Public Improvement		4,192	-	-	-	(4,192)	-	(4,192)
Senior Center		10,000	-	-	-	(10,000)	-	(10,000)
Log Home Maintenance		273	-	1,113	-	840	-	840
Summer Tax Collection		300	-	15,028	-	14,728	-	14,728
Public Improvement Roads		1,709	-	-	-	(1,709)	-	(1,709)
PDR		24,708	-	-	-	(24,708)	-	(24,708)
Cable		1,328	-	-	-	(1,328)	-	(1,328)
Transfers		22,500	-	-	-	(22,500)	-	(22,500)
Interest on long-term debt		64,978	-	-	-	(64,978)	-	(64,978)
Depreciation - unallocated		31,977	-	-	-	(31,977)	-	(31,977)
Total governmental activities		997,314	-	250,447	57,600	(689,267)	-	(689,267)
Business-type activities								
Sewer		106,954	81,071	-	222,245	-	196,362	196,362
Water		112,774	44,209	-	868,300	-	799,735	799,735
Compactor Station		44,548	32,184	-	-	-	(12,364)	(12,364)
Tower		19,221	37,245	-	-	-	18,024	18,024
Total business-type activities		283,497	194,709	-	1,090,545	-	1,001,757	1,001,757
Total primary government		\$ 1,280,811	\$ 194,709	\$ 250,447	\$ 1,148,145	(689,267)	1,001,757	312,490
General purpose revenues								
Taxes								
Property taxes, levied for general purposes						744,760	-	744,760
Property taxes, levied for debt service						770,301	-	770,301
Investment earnings						36,863	50,911	87,774
Miscellaneous						91,384	-	91,384
Total general revenues						1,643,308	50,911	1,694,219
Change in net assets						954,041	1,052,668	2,006,709
Net assets, beginning of the year						2,463,857	2,169,494	4,633,351
Net assets, end of the year						\$ 3,417,898	\$ 3,222,162	\$ 6,640,060

The accompanying notes are an integral part of these financial statements.

# Peninsula Township

## BALANCE SHEET - GOVERNMENTAL FUNDS

March 31, 2004

	General Fund	Fire Fund	PDR Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and equivalents	\$ 239,198	\$ 534,944	\$ 1,094,774	\$ 770	\$ 303,006	\$ 2,172,692
Restricted investments	-	-	53,404	-	45,545	98,949
Accounts and advances receivable	11,545	-	-	-	383	11,928
Property taxes receivable	11,298	14,059	30,841	-	2,943	59,141
Due from other funds	109,835	-	111,848	-	27,321	249,004
Due from governmental units	47,970	-	-	-	-	47,970
Prepaid expenditures and deferred charges	8,967	2,361	-	-	29	11,357
Total assets	<u>\$ 428,813</u>	<u>\$ 551,364</u>	<u>\$ 1,290,867</u>	<u>\$ 770</u>	<u>\$ 379,227</u>	<u>\$ 2,651,041</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ -	\$ 205	\$ 7	\$ -	\$ 18	\$ 230
Due to other funds	12,676	-	79,073	-	102,635	194,384
Due to other governmental units	-	-	10,779	-	-	10,779
Total liabilities	<u>12,676</u>	<u>205</u>	<u>89,859</u>	<u>-</u>	<u>102,653</u>	<u>205,393</u>
<b>FUND BALANCES</b>						
Reserved for						
Perpetual care	-	-	-	-	21,450	21,450
Debt Service	-	-	-	770	-	770
Unreserved	416,137	551,159	1,201,008	-	255,124	2,423,428
Total liabilities and fund balances	<u>\$ 428,813</u>	<u>\$ 551,364</u>	<u>\$ 1,290,867</u>	<u>\$ 770</u>	<u>\$ 379,227</u>	<u>2,445,648</u>

### Reconciliation of Governmental Fund Balances to District-Wide Governmental Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$5,219,238 and the accumulated depreciation is \$137,071.

5,082,167

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Notes payable	\$ 2,929,016	
Accrued interest on notes	64,978	
Health insurance accrual	1,115,923	(4,109,917)

Total net assets - governmental activities

\$ 3,417,898



# Peninsula Township

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

For the nine months ended March 31, 2004

	General Fund	Fire Fund	PDR Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 282,180	\$ 389,064	\$ 770,301	\$ -	\$ 73,516	\$ 1,515,061
State grants	233,606	57,600	-	-	-	291,206
Charges for services	-	-	-	-	16,841	16,841
Interest income	26,196	4,026	3,531	3	3,107	36,863
Other revenue	21,431	3,277	-	-	66,676	91,384
Total revenues	563,413	453,967	773,832	3	160,140	1,951,355
<b>EXPENDITURES</b>						
Current						
Legislative	30,720	-	-	-	-	30,720
General government	419,906	-	24,465	-	16,358	460,729
Public safety	89,454	164,093	-	-	46,059	299,606
Recreation and culture	39,619	-	-	-	-	39,619
Capital outlay	16,953	95,909	1,355,743	-	-	1,468,605
Debt services	-	-	-	315,233	-	315,233
Total expenditures	596,652	260,002	1,380,208	315,233	62,417	2,614,512
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(33,239)	193,965	(606,376)	(315,230)	97,723	(663,157)
<b>OTHER FINANCING SOURCES (USES)</b>						
Note proceeds	-	-	1,355,500	-	-	1,355,500
Operating transfers in	50,250	-	-	316,000	-	366,250
Operating transfer out	(22,500)	-	(316,000)	-	(50,250)	(388,750)
Total other financing sources (uses)	27,750	-	1,039,500	316,000	(50,250)	1,333,000
<b>NET CHANGE IN FUND BALANCES</b>	(5,489)	193,965	433,124	770	47,473	669,843
Fund balance, beginning of year	421,626	357,194	767,884	-	229,101	1,775,805
Fund balance, end of year	\$ 416,137	\$ 551,159	\$ 1,201,008	\$ 770	\$ 276,574	\$ 2,445,648

The accompanying notes are an integral part of these financial statements.

## Peninsula Township

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES

For the nine months ended March 31, 2004

**Total net change in fund balances - governmental funds** \$ 669,843

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds expenditures. However, those costs are allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

Capital outlays	\$ 1,443,919	
Depreciation expense	<u>(31,977)</u>	1,411,942

In the statement of activities, certain operating expenses - accrued health insurance - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This year, the accrued health insurance funded was greater than the amount used by \$22,500. (22,500)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 217,810

Note proceeds are a revenue in the governmental funds, but it is recorded as a liability in the statement of net assets. (1,355,500)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of the increase in accrued interest on bonds payable. 32,446

**Change in net assets of governmental activities** \$ 954,041

# Peninsula Township

## COMBINING STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 31, 2004

Business-type Activities - Enterprise Funds					
	Sewer Fund*	Water Fund *	Compactor Station Fund	Tower Fund	Totals
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$ 54,003	\$ 126,808	\$ 75	\$ 33,192	\$ 214,078
Due from county					
Receiving fund	22,389	53	-	-	22,442
Debt service	534	524	-	-	1,058
Investments	155,761	154,019	10,722	9,325	329,827
Due from other funds	53,612	28,956	-	-	82,568
Receivables					
Accounts	170	11,804	-	-	11,974
Special assessments	60,271	76,077	-	-	136,348
Interest receivable	7,937	6,374	-	-	14,311
Prepaid expenses	-	-	1,611	-	1,611
Total current assets	354,677	404,615	12,408	42,517	814,217
<b>PROPERTY, PLANT AND EQUIPMENT</b>					
Land improvement	-	-	-	6,530	6,530
Tower	-	-	-	262,720	262,720
Equipment	1,500	748,257	40,239	-	789,996
Sewer projects	3,625,299	-	-	-	3,625,299
Total property, plant and equipment	3,626,799	748,257	40,239	269,250	4,684,545
Less accumulated depreciation	597,674	145,858	33,875	68,279	845,686
Net property, plant and equipment	3,029,125	602,399	6,364	200,971	3,838,859
<b>OTHER ASSETS</b>					
Unearned long-term lease income	-	-	-	25,368	25,368
Special assessments receivable, net of current portion	338,731	621,025	-	-	959,756
Riser and benefit charges receivable	88,902	-	-	-	88,902
Bond issuance costs, net	8,622	3,304	-	-	11,926
Total other assets	436,255	624,329	-	25,368	1,085,952
	<u>\$ 3,820,057</u>	<u>\$ 1,631,343</u>	<u>\$ 18,772</u>	<u>\$ 268,856</u>	<u>\$ 5,739,028</u>

# **Peninsula Township**

## **COMBINING STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

March 31, 2004

	Business-type Activities - Enterprise Funds				
	Sewer Fund*	Water Fund *	Compactor Station Fund	Tower Fund	Totals
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ -	\$ -	\$ 11,005	\$ -	\$ 11,005
Current portion of bonds and notes payable	184,027	35,000	-	27,104	246,131
Accrued interest	11,423	5,819	-	-	17,242
Customer deposits	240	-	-	-	240
Due to other funds	39,282	16,200	-	-	55,482
Total current liabilities	234,972	57,019	11,005	27,104	330,100
<b>LONG-TERM DEBT, net of current portion</b>					
General obligation bonds	795,000	140,000	-	-	935,000
Contract payable	-	-	-	135,241	135,241
Sewer Treatment Plant bonds	1,116,525	-	-	-	1,116,525
Total long-term liabilities	1,911,525	140,000	-	135,241	2,186,766
Total liabilities	2,146,497	197,019	11,005	162,345	2,516,866
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	922,150	421,580	6,364	38,626	1,388,720
Unrestricted	751,410	1,012,744	1,403	67,885	1,833,442
Total net assets	1,673,560	1,434,324	7,767	106,511	3,222,162
	<u>\$ 3,820,057</u>	<u>\$ 1,631,343</u>	<u>\$ 18,772</u>	<u>\$ 268,856</u>	<u>\$ 5,739,028</u>

\* Major funds

The accompanying notes are an integral part of these financial statements.

# Peninsula Township

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

For the nine months ended March 31, 2004

	Business-type Activities - Enterprise Funds				
	Sewer Fund	Water Fund	Compactor Station Fund	Tower Fund	Totals
Operating revenues					
Charges for services	\$ 81,071	\$ 44,209	\$ 32,184	\$ 37,245	\$ 194,709
Operating expenses					
Amortization	1,069	583	-	-	1,652
Debt service interest	41,683	8,841	-	11,255	61,779
Contractual services	9,400	92,025	30,266	-	131,691
Salaries and wages	-	-	11,342	-	11,342
Repairs and maintenance	-	-	289	-	289
Depreciation	54,802	11,325	225	7,966	74,318
Utilities	-	-	207	-	207
Communications	-	-	308	-	308
Payroll taxes	-	-	732	-	732
Supplies	-	-	1,179	-	1,179
Total operating expenses	106,954	112,774	44,548	19,221	283,497
Operating income (loss)	(25,883)	(68,565)	(12,364)	18,024	(88,788)
Other income and expenses					
Interest income	20,192	29,194	994	531	50,911
Operating transfer in (out)	-	-	12,100	(12,100)	-
Total other operating income (loss)	20,192	29,194	13,094	(11,569)	50,911
<b>NET EARNINGS (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(5,691)	(39,371)	730	6,455	(37,877)
Capital contributions	222,245	868,300	-	-	1,090,545
<b>CHANGE IN NET ASSETS</b>	216,554	828,929	730	6,455	1,052,668
Net assets, beginning of year	1,457,006	605,395	7,037	100,056	2,169,494
Net assets, end of year	<u>\$ 1,673,560</u>	<u>\$ 1,434,324</u>	<u>\$ 7,767</u>	<u>\$ 106,511</u>	<u>\$ 3,222,162</u>

The accompanying notes are an integral part of these financial statements.

**Peninsula Township**  
**COMBINING STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUNDS**

For the nine months ended March 31, 2004

	Business-type Activities - Enterprise Funds				Totals
	Sewer Fund	Water Fund	Compactor Station Fund	Tower Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 53,740	\$ 15,349	\$ 32,184	\$ 27,495	\$ 128,768
Cash payments to employees and suppliers	(4,080)	(103,445)	(37,408)	-	(144,933)
Interest paid	(36,811)	(6,464)	-	(11,255)	(54,530)
Net cash provided (used) by operating activities	12,849	(94,560)	(5,224)	16,240	(70,695)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment earnings, including interest income from special assessments	20,192	29,194	994	531	50,911
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Operating transfer in (out)	-	-	12,100	(12,100)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Collection of special assessment	83,487	221,494	-	-	304,981
Principal payments	(135,000)	(30,000)	-	(17,725)	(182,725)
Net cash provided (used) by capital and related financing activities	(51,513)	191,494	-	(17,725)	122,256
<b>NET INCREASE (DECREASE) IN CASH</b>	(18,472)	126,128	7,870	(13,054)	102,472
Cash, beginning of year	251,159	155,276	2,927	55,571	464,933
Cash, end of year	\$ 232,687	\$ 281,404	\$ 10,797	\$ 42,517	\$ 567,405
<b>Non-cash activities</b>					
Special assessments	\$ 222,245	\$ 868,300	\$ -	\$ -	\$ 1,090,545

The accompanying notes are an integral part of these financial statements.

# Peninsula Township

## STATEMENT OF FIDUCIARY NET ASSETS

March 31, 2004

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and deposits	\$ 524,658
Investments	<u>50,000</u>
Total assets	<u><u>\$ 574,658</u></u>
 <b>LIABILITIES</b>	
<b>LIABILITIES</b>	
Due to other funds	\$ 81,706
Due to others	10,108
Due to retired employees	202,959
Due to library	<u>279,885</u>
Total liabilities	<u><u>\$ 574,658</u></u>

# **Peninsula Township**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Introduction***

The accounting and reporting framework and the significant accounting principles and practices of Peninsula Township (the "Township") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Township's financial activities for the nine months ended March 31, 2004.

#### ***The Financial Reporting Entity***

The Township's financial statements include the accounts of all Township operations. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, the Township is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Township. Additionally, the Township is required to consider other organizations for which the nature and significance of their relationship with the Township are such that exclusion would cause the Township's financial statements to be misleading or incomplete. The Township has not identified any blended or discretely presented component units requiring inclusion in the Township's financial statements.

#### ***Government-Wide and Fund Financial Statements***

##### ***Government-Wide Financial Statements***

The statement of net assets and statement of activities display information about the Township as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and general revenues.

The statement of activities reports the expenses of a given fund offset by program revenues directly connected with that fund. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

##### ***Fund Financial Statements***

The balance sheets and statements of revenues, expenditures/expenses and changes in fund balance/net assets (i.e. fund financial statements) for the Township's governmental, proprietary and fiduciary funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund type assets, liabilities, revenues or expenditures.



**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The fund financial statements of the Township are prepared in accordance with *Generally Accepted Accounting Principles* ("GAAP"). The Township applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. An exception to this general rule is long-term interfund advances which are recorded on governmental fund balance sheets. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grants are recognized when grantor eligibility requirements are met. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred.

The fiduciary funds are generally maintained on a cash basis which is consistent with the accounting measurement objectives of the funds. Reporting these funds on a cash basis does not have an effect materially different from reporting them on the accrual or modified accrual basis as required by generally accepted accounting principles.

***Revenues***

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### *Fund Types and Major Funds*

##### *Activities in Major Funds*

#### GOVERNMENTAL FUNDS

**General Fund** - This fund is used to account for all financial resources except those provided for in other funds. The fund includes the general operating expenditures of the Township.

**Fire Department Fund** - This fund is used to account for the development and operation of the Township Fire Department. Financing is provided by special assessments on the Township's real property.

**Purchase Development Rights Fund** - This fund is used to account for the acquisition of development rights. Financing is provided by a special tax levy, State and Federal grants and issuance of general long-term debt obligations.

**Debt Service Fund** - This fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

#### PROPRIETARY FUNDS

**Sewer Fund** - This fund is used to account for the construction of the Township's sewer system and operation thereof. Financing is provided by Federal and State grants, bond issues, special assessments and user charges.

**Water Fund** - This fund is used to account for the construction of the Township's water system and operation thereof. Financing is provided by customer contributions, bond issues, special assessments and user charges.

##### *Activities in Non Major Funds*

#### GOVERNMENTAL FUNDS

**Special Revenue Funds** - These funds are used to account for specific revenue (other than special assessments, expendable trusts or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

**Capital Project Funds** - The Capital Improvement Fund is used to account for construction of central administrative offices. Financing is provided by a transfer from the Public Improvements - Building Fund.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**PROPRIETARY FUNDS**

**Enterprise Funds** - These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**FIDUCIARY FUNDS**

**Trust and Agency Funds** - These funds account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These funds include Expendable Trust, Non-Expendable Trust and Agency Funds.

***Budgets and Budgetary Accounting***

Budgets are adopted by the Township officials for the primary government's General and Special Revenue Funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the functional level and control is exercised at the functional level.

***Cash and Investments***

The Township considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

***Interfund Transactions and Balances***

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Due to/from other funds are short-term interfund balances that occur in the normal course of operations. Advances to/from other funds are long-term interfund financing arrangements.

***Proprietary Funds - Property, Plant and Equipment***

Property, plant and equipment used in proprietary funds are stated at cost. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. The Township generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction in process. Expenditures for major renewals and maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The estimated useful lives, in years, for depreciable assets are as follows:

Land improvements	15 years
Buildings and improvements	20 - 50 years
Sewer systems	50 years
Equipment	5 - 10 years
Towers	20 - 50 years

***Governmental Funds - Property, Plant and Equipment***

Property, plant and equipment used in governmental funds are stated at cost. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. The Township generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction in process. Expenditures for major renewals and maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives, in years, for depreciable assets are as follows:

Land improvements	15 years
Buildings and improvements	20 - 50 years
Equipment	5 - 10 years
Vehicles	5 - 10 years

***Restricted Assets***

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as needed.

***Compensated Absences***

The Township's policy is to grant employees 12 leave days per year. Prior to the end of the year, employees are paid for any remaining unused leave days at \$100 per day and are not allowed to carryover days to the next year. Consequently, there is no liability for accumulated unpaid leave.

Employees earn vacation leave benefits on their anniversary date, the amount of which is dependent on their length of employment. Benefits must be used within one year and cannot be carried over. Accordingly, all accrued vacation is recorded as a current liability in the applicable funds.

***Fund Equity***

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reserves of fund equity represent portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Unrestricted net assets of Proprietary Funds represent the net assets that have not been legally identified for specific purposes.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE B - BUDGETARY POLICY AND PRACTICE**

Michigan Public Act 621 of 1978 also provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the nine months ended March 31, 2004, the Township incurred certain expenditures which were in excess of the amounts appropriated, as displayed in the Budgetary Comparison Schedules on pages 26 - 28.

**NOTE C - DEPOSITS AND INVESTMENTS**

Investments include certificates of deposit and short-term investment funds. The investments in the short-term investment funds are those permitted by Michigan law as follows:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

The monies of the Township are deposited with Traverse City State Bank, which provides FDIC insurance coverage. Investment funds are deposited in Fifth Third, Traverse City State Bank, Huntington National Bank and Merrill Lynch. The short-term investment funds are uninsured; however, some of the underlying assets of the investment funds are insured.

The Township's deposits and investments are shown below:

Category 1 - Insured or collateralized with securities held by entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in entity's name.

Category 3 - Uncollateralized.

# NOTES TO FINANCIAL STATEMENTS - Continued

## NOTE C - DEPOSITS AND INVESTMENTS - Continued

	Carrying Value	Balance per Bank			
		Category			
		1	2	3	Total
Deposits					
Cash held by county	\$ 23,500	\$ -	\$ -	\$ -	\$ -
Traverse City State Bank	539,948	100,000	-	449,744	549,744
Investments					
Fifth Third	768	768	-	-	768
Huntington National Bank	569,187	100,000	-	469,187	569,187
Merrill Lynch	65	65	-	-	65
Traverse City State Bank	<u>2,280,236</u>	<u>100,000</u>	<u>-</u>	<u>2,307,774</u>	<u>2,407,774</u>
	<u>\$3,413,704</u>	<u>\$300,833</u>	<u>\$ -</u>	<u>\$3,226,705</u>	<u>\$3,527,538</u>

At certain times during the year, peak cash flows cause increases in bank balances and the corresponding uninsured and uncollateralized portion thereof. The uninsured and uncollateralized amounts may have been higher during the year.

## NOTE D - PROPERTY TAXES

The Township levies current property taxes between December 1 and February 28 for the applicable school districts, county and community college as well as its own levy. In addition, the Township levies all of the schools' operating millage between July 1 and February 29, 2004. The total levy is 43.77 mills for non-homestead property and 25.77 mills for homestead property. The Township's portion is 1 mill for the special assessment fire millage on state equalized value on taxable property of \$390,205,751 and 2.85 mills for Ad Valorem taxes on taxable property value of \$395,086,667.

The real property taxes which become delinquent March 1 are paid to the various taxing authorities the following May out of the county delinquent tax revolving fund. Therefore, property taxes are reported as revenue in the fiscal year in which they are collected.

## NOTE E - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

Fund	Interfund Receivables	Fund	Interfund Payables
General Fund	\$109,835	General Fund	\$ 12,676
Special Revenue Fund	111,848	Special Revenue Fund	146,339
Enterprise Fund	82,568	Enterprise Fund	55,482
Trust and Agency Fund	-	Trust and Agency Fund	81,706
Capital Projects	<u>27,321</u>	Capital Projects	<u>35,369</u>
Total	<u>\$331,572</u>	Total	<u>\$331,572</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE F - INVESTMENT IN CAPITAL ASSETS**

Investment in capital assets changed as follows during the nine months ended March 31, 2004:

**Governmental Activities - General Fixed Assets**

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Land and land development rights	\$2,639,050	\$1,355,500	\$ -	\$3,994,550
Building and improvements	344,054	-	-	344,054
Equipment and furniture	468,689	88,419	-	557,108
Vehicles	<u>323,526</u>	<u>-</u>	<u>-</u>	<u>323,526</u>
Total depreciable assets	3,775,319	1,443,919	-	5,219,238
Less accumulated depreciation	<u>(105,094)</u>	<u>(31,977)</u>	<u>-</u>	<u>(137,071)</u>
Total capital assets, net	<u>\$3,670,225</u>	<u>\$1,411,942</u>	<u>\$ -</u>	<u>\$5,082,167</u>

**Business-Type Activities - Enterprise Funds**

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Land and improvements	\$ 6,530	\$ -	\$ -	\$ 6,530
Tower	262,720	-	-	262,720
Equipment	789,996	-	-	789,996
Sewer projects	<u>3,625,299</u>	<u>-</u>	<u>-</u>	<u>3,625,299</u>
Total depreciable assets	4,684,545	-	-	4,684,545
Less accumulated depreciation	<u>(771,368)</u>	<u>(74,318)</u>	<u>-</u>	<u>(845,686)</u>
Total capital assets, net	<u>\$3,913,177</u>	<u>\$(74,318)</u>	<u>\$ -</u>	<u>\$3,838,859</u>

**NOTE G - LONG-TERM DEBT**

Long-term debt consists of the following:

Installment contracts payable for purchase of development rights are recorded in the long-term debt group of accounts as it is expected the debt will be repaid from a special property tax levy. The Township will make annual payments ranging from \$301,118 to \$315,233, including interest ranging from 5.375% to 5.7% through 2010. \$2,929,016

1990 Sewage Disposal Bonds are recorded in the Sewer Fund as the debt will be repaid from special assessments recorded in the Proprietary Funds. Annual required principal payments range from \$55,000 to \$135,000, plus interest at 2% through October 2010. 835,000

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE G - LONG-TERM DEBT - Continued**

1991 Sewage Disposal Bonds are recorded in the Sewer Fund as the debt will be repaid from special assessments recorded in the Proprietary Funds. Annual required principal payments range from \$10,000 to \$20,000, plus interest ranging from 5.5% to 7.5% through October 2009.

\$ 100,000

1990 Water Supply Bonds are recorded in the Water Fund as the debt will be repaid from special assessments recorded in the Proprietary Funds. Annual required principal payments range from \$25,000 to \$35,000, plus interest ranging from 6.25% to 8.25% through October 2008.

175,000

Estimated liability for a portion of the County Wastewater Treatment Plant's debt is recorded in the Sewer Fund as it will be repaid from user charges. Estimated annual required principal payments range from \$1,890 to \$4,473, plus interest through May 2015.

31,262

Estimated liability for a portion of the County Wastewater Treatment Plant's debt is recorded in the Sewer Fund as it will be repaid from user charges. Estimated annual required principal payments range from \$41,000 to \$79,000, plus interest through November 2023.

1,129,290

Estimated liability for contract payable for wireless tower debt is recorded in the Tower Fund and is to be repaid from co-location fees. Estimated annual payments range from \$9,489 and \$16,951, including interest at NYCP rate, plus 2% through 2008. The Township's obligation is to reimburse NPI for the cost of the tower via a 10-year tower lease agreement with NPI. The contract payable is reduced by the monthly lease amount from NPI and 80% of any co-location fees. In the event this liability is not paid at the end of the lease, the unpaid balance will become a contribution to the Township.

162,345

\$5,361,913

The following is a summary of changes in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
General Funds				
Notes payable - development rights	<u>\$1,791,326</u>	<u>\$1,355,500</u>	<u>\$217,810</u>	<u>\$2,929,016</u>
Enterprise Funds				
Sewer Fund	\$2,230,552	\$ -	\$135,000	\$2,095,552
Water Fund	205,000	-	30,000	175,000
NPI Wireless Tower Contract payable	<u>180,070</u>	<u>-</u>	<u>17,725</u>	<u>162,345</u>
	<u>\$2,615,622</u>	<u>\$ -</u>	<u>\$182,725</u>	<u>\$2,432,897</u>



# NOTES TO FINANCIAL STATEMENTS - Continued

## NOTE G - LONG-TERM DEBT - Continued

### *Annual Requirements to Amortize Long-Term Debt*

Annual requirements to amortize long-term debt outstanding as of March 31, 2004, including interest payments of \$1,052,392, are as follows:

<u>Years Ending June 30,</u>	<u>Enterprise Funds</u>	<u>Governmental Funds</u>
2005	\$ 340,252	\$1,670,733
2006	333,569	315,233
2007	335,633	315,233
2008	358,498	315,233
2009	293,089	315,233
2010-2014	673,735	315,234
2015-2019	430,332	-
2020-2023	<u>402,298</u>	<u>-</u>
Total	<u>\$3,167,406</u>	<u>\$3,246,899</u>

### *Accrued Health Insurance Benefits Liability*

As of March 31, 2004, the Township has a potential liability tax of \$1,318,882 for health insurance benefits to retired employees. The Township has funded \$202,959 of the liability, leaving the remaining \$1,115,923 unfunded at March 31, 2004.

## NOTE H - INTERFUND TRANSFERS

### *Operating Transfers*

A summary of operating transfers in and out of individual funds follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	\$ 50,250	General	\$ 22,500
		Purchase of Development Rights	316,000
Debt Service Fund	316,000	Cable Fund	50,250
Compactor Station	<u>12,100</u>	Tower Fund	<u>12,100</u>
Subtotal	378,350	Subtotal	400,850
Employer Medical Benefit Fund	<u>22,500</u>		-
	<u>\$400,850</u>		<u>\$400,850</u>

## NOTE I - PENSION PLAN

The Township participates in a defined contribution (money purchase) pension plan through Manufacturer's Life Insurance Company. The plan covers substantially all employees with the exception of seasonal employees. The amount of covered payroll for the nine months ended March 31, 2004 was \$311,845; total payroll for the nine months ended March 31, 2004 was \$381,196. Employer contributions are based upon a percentage of annual payroll. Employees may make additional contributions if they so desire. Employees are vested 100% in employer contributions after 20 months of service.

## NOTES TO FINANCIAL STATEMENTS

### NOTE I - PENSION PLAN - Continued

The Township fully funded its required contribution for the nine months ended March 31, 2004. Current year employer contributions amounted to \$40,540, or 13%, of covered payroll. There were no employee contributions during the year.

None of the plan's assets are invested in the Township securities or those of related parties. There are no loans from the plan to the Township.

### NOTE J - CONTINGENCIES

#### *Grant Programs*

The Township participates in State and Federally assisted grant programs. The programs are subject to economy and efficiency and program result audits by the grantors or their representatives. The audits of the programs for or including the nine months ended March 31, 2004 have not yet been conducted. Accordingly, the County's compliance with applicable grant requirements will be established at some future date.

### NOTE K - RISK MANAGEMENT

The Township pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Township carries coverage for property damage, liability, wrongful acts, automobile, crime and inland marine claims. Also, the Township carries worker's compensation insurance with the Michigan Municipal League. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### NOTE L - JOINT VENTURES

Peninsula Township entered into a master sewer agreement effective July 1, 1987 through June 30, 2010 with the City of Traverse City, the Townships of Acme, East Bay and Garfield in Grand Traverse County, the Township of Elmwood in Leelanau County, and Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the Wastewater Treatment Plant. Grand Traverse County is the owner of the Wastewater Treatment Plant and the City of Traverse City is the owner of all of the multi-user facilities. Ownership of the Wastewater Treatment Plant will revert to the City of Traverse City when certain bonds issued by Grand Traverse County are retired.

The City of Traverse City is the exclusive manager of the plant for the benefit of itself and the Townships. As the exclusive manager, the City of Traverse City has the obligation to fully inform and advise the Townships as to the Wastewater Treatment Plant's operations and the Townships shall have the right to comment on all matters connected with the administration of the plant. Prior to June 30, the City of Traverse City shall submit a proposed budget for the operation of the Wastewater Treatment Plant for the year commencing July 1. The Townships have 30 days in which to comment on the proposed budget.

## NOTES TO FINANCIAL STATEMENTS

### NOTE L - JOINT VENTURES - Continued

Each of the parties of the agreement is entitled to make use of a portion of the Wastewater Treatment Plant's capacity as follows:

<u>Party</u>	<u>Capacity Right</u>
City of Traverse City	62.45%
Garfield Township	14.37
East Bay Township	11.24
Elmwood Township	4.70
Acme Township	4.37
Peninsula Township	<u>2.87</u>
	<u>100.00%</u>

Each participant in the joint venture pays an amount sufficient to cover their pro rata share of the Wastewater Treatment Plant costs. Each participant's pro rata share is determined by their volume of sewage treated in relation to total sewage treated at the plant.

The Township is also liable for a portion of the Wastewater Treatment Plant's debt. The liability is determined on a biannual basis based upon the amount of the Township's flows through the Wastewater Treatment Plant. For the nine months ended March 31, 2004, the Township's percentage ranged from 1% to 1.53%. The estimate of the Township's portion of Wastewater Treatment Plant debt is included in long-term debt. (See Note G).

### NOTE M - RECONCILIATION OF CASH FLOWS

A reconciliation of operating loss to net cash used by operating activities follows:

Operating loss	\$(88,788)
Adjustments to reconcile net earnings	
Depreciation and amortization	75,970
Decrease in accounts receivable	9,684
Decrease in accounts payable	(24,812)
Increase in accrued interest expense	7,249
Increase in due from other funds	<u>(49,998)</u>
Net cash flow used by operating activities	<u>\$(70,695)</u>

### NOTE N - UNEARNED LONG-TERM LEASE INCOME

The Township has entered into a 10-year tower lease agreement with NPI Wireless. NPI Wireless constructed the tower and transferred ownership to Peninsula Township. The Township has recorded an asset and an estimated liability for a contract payable to NPI. Under the terms of the agreement, the Township reduces the contract payable by the monthly lease amount from NPI and 80% of any co-location fees. At the end of the lease, any remaining liability on the contract payable will be forgiven by NPI. It is estimated that this liability will not be paid off at the end of the lease and the amount estimated to be owed at the end of the contract is being amortized over the life of the lease and recorded as unearned long-term lease income. As future lease arrangements occur, the additional co-location fees earned may reduce the amount of the amortization necessary to cover the estimated remaining liability.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# Peninsula Township

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the nine months ended March 31, 2004

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
<b>REVENUES</b>					
Taxes	\$ 236,000	\$ 236,000	\$ 282,180	\$ -	\$ 46,180
State and Federal grants	340,000	340,000	233,606	-	(106,394)
Charges for services	1,875	1,875	-	-	(1,875)
Fine and forfeits	12,900	12,900	-	-	(12,900)
Interest and rentals	35,000	35,000	26,196	-	(8,804)
Other revenue	-	-	21,431	-	21,431
Total revenues	625,775	625,775	563,413	-	(62,362)
<b>EXPENDITURES</b>					
Legislative	35,250	35,250	30,720	-	4,530
General government	456,444	483,344	444,541	(26,900)	38,803
Public safety	80,775	86,975	89,454	(6,200)	(2,479)
Recreation and culture	59,291	41,291	31,937	18,000	9,354
Total expenditures	631,760	646,860	596,652	(15,100)	50,208
<b>REVENUES UNDER EXPENDITURES</b>	(5,985)	(21,085)	(33,239)	(15,100)	(12,154)
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	50,250	-	27,750	(50,250)	27,750
<b>NET CHANGE IN FUND BALANCES</b>	44,265	(21,085)	(5,489)	(65,350)	15,596
Fund balance, beginning of year	421,626	421,626	421,626	-	-
Fund balance, end of year	\$ 465,891	\$ 400,541	\$ 416,137	\$ (65,350)	\$ 15,596

**Peninsula Township**  
**BUDGETARY COMPARISON SCHEDULE FOR THE FIRE FUND**  
For the nine months ended March 31, 2004

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
<b>REVENUES</b>					
Taxes	\$ 310,000	\$ 292,500	\$ 389,064	\$ (17,500)	\$ 96,564
State and Federal grants	-	-	57,600	-	57,600
Interest and rentals	7,500	7,500	4,026	-	(3,474)
Other revenue	3,750	3,750	3,277	-	(473)
Total revenues	321,250	303,750	453,967	(17,500)	150,217
<b>EXPENDITURES</b>					
Public safety	321,133	321,133	260,002	-	61,131
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	117	(17,383)	193,965	(17,500)	211,348
Fund balance, beginning of year	357,194	357,194	357,194	-	-
Fund balance, end of year	\$ 357,311	\$ 339,811	\$ 551,159	\$ (17,500)	\$ 211,348

**Peninsula Township**  
**BUDGETARY COMPARISON SCHEDULE FOR THE PDR FUND**  
For the nine months ended March 31, 2004

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
<b>REVENUES</b>					
Taxes	\$ 535,500	\$ 535,500	\$ 770,301	\$ -	\$ 234,801
State and Federal grants	206,250	206,250	-	-	(206,250)
Interest and rentals	3,750	3,750	3,531	-	(219)
Total revenues	745,500	745,500	773,832	-	28,332
<b>EXPENDITURES</b>					
General government	2,660,625	2,660,625	1,380,208	-	1,280,417
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(1,915,125)	(1,915,125)	(606,376)	-	1,308,749
<b>OTHER FINANCING SOURCES (USES)</b>					
Note proceeds	1,875,000	1,875,000	1,355,500	-	(519,500)
Operating transfers out	(316,000)	(316,000)	(316,000)	-	-
Total other financing sources (uses)	1,559,000	1,559,000	1,039,500	-	(519,500)
<b>NET CHANGE IN FUND BALANCES</b>	(356,125)	(356,125)	433,124	-	789,249
Fund balance, beginning of year	767,884	767,884	767,884	-	-
Fund balance, end of year	\$ 411,759	\$ 411,759	\$ 1,201,008	\$ -	\$ 789,249

## **COMBINING FINANCIAL STATEMENTS**



# Peninsula Township

## COMBINING BALANCE SHEET - NON MAJOR GOVERNMENTAL FUNDS

March 31, 2004

Special Revenue Funds											
	Police	Bowers Harbor Improvement	Public Improvement	Senior Center	Log Home Maintenance	Summer Tax Collection	Public Improvement Roads	Public Improvement Buildings	Cable	Capital Projects Fund	Total Other Non Major Funds
ASSETS											
Cash and investments	\$ 95,433	\$ 1,054	\$ 24,386	\$ 9,632	\$ 3,969	\$ 3,671	\$ 24,445	\$ 3,890	\$ 122,322	\$ 14,204	\$ 303,006
Restricted investments	-	-	-	-	-	45,545	-	-	-	-	45,545
Accounts and advances receivable	-	-	-	-	-	383	-	-	-	-	383
Property taxes receivable	2,943	-	-	-	-	-	-	-	-	-	2,943
Prepaid expenses	-	-	29	-	-	-	-	-	-	-	29
Due from other funds	-	-	-	-	-	-	-	-	-	27,321	27,321
Total assets	\$ 98,376	\$ 1,054	\$ 24,415	\$ 9,632	\$ 3,969	\$ 49,599	\$ 24,445	\$ 3,890	\$ 122,322	\$ 41,525	\$ 379,227
LIABILITIES AND FUND BALANCES											
LIABILITIES											
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18	\$ -	\$ -	\$ -	\$ -	\$ 18
Due to other funds	7,766	-	-	350	-	25,400	1,900	-	31,850	35,369	102,635
Total liabilities	7,766	-	-	350	-	25,418	1,900	-	31,850	35,369	102,653
FUND BALANCES											
Reserved for perpetual care	-	-	21,450	-	-	-	-	-	-	-	21,450
Unreserved	90,610	1,054	2,965	9,282	3,969	24,181	22,545	3,890	90,472	6,156	255,124
Total fund balances	90,610	1,054	24,415	9,282	3,969	24,181	22,545	3,890	90,472	6,156	276,574
Total liabilities and fund balances	\$ 98,376	\$ 1,054	\$ 24,415	\$ 9,632	\$ 3,969	\$ 49,599	\$ 24,445	\$ 3,890	\$ 122,322	\$ 41,525	\$ 379,227

# Peninsula Township

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NON MAJOR GOVERNMENTAL FUNDS

For the nine months ended March 31, 2004

### Special Revenue Funds

	Police	Bowers Harbor Improvement	Public Improvement	Senior Center	Log Home Maintenance	Summer Tax Collection	Public Improvement Roads	Public Improvement Buildings	Cable	Capital Projects Fund	Total Other Non Major Funds
<b>Revenues</b>											
Taxes	\$ 73,516	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,516
Contributions - local sources	-	700	-	-	1,113	15,028	-	-	-	-	16,841
Interest and rentals	808	8	415	191	31	347	201	40	956	110	3,107
Other revenue	-	-	901	-	-	-	-	-	65,775	-	66,676
Total revenues	74,324	708	1,316	191	1,144	15,375	201	40	66,731	110	160,140
<b>Expenditures</b>											
General government	-	265	4,192	10,000	273	300	-	-	1,328	-	16,358
Public safety	44,350	-	-	-	-	-	1,709	-	-	-	46,059
Total expenditures	44,350	265	4,192	10,000	273	300	1,709	-	1,328	-	62,417
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	29,974	443	(2,876)	(9,809)	871	15,075	(1,508)	40	65,403	110	97,723
Other financing uses	-	-	-	-	-	-	-	-	(50,250)	-	(50,250)
Operating transfer out	-	-	-	-	-	-	-	-	-	-	-
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</b>	29,974	443	(2,876)	(9,809)	871	15,075	(1,508)	40	15,153	110	47,473
Fund balance, beginning of year	60,636	611	27,291	19,091	3,098	9,106	24,053	3,850	75,319	6,046	229,101
Fund balance, end of year	\$ 90,610	\$ 1,054	\$ 24,415	\$ 9,282	\$ 3,969	\$ 24,181	\$ 22,545	\$ 3,890	\$ 90,472	\$ 6,156	\$ 276,574

# **Peninsula Township**

## **COMBINING STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS**

March 31, 2004

### **ASSETS**

Cash and investments  
Investments - restricted

	Tax Collection Fund	Trust and Agency Fund	Employee Medical Benefit Fund	Library Trust and Agency Fund	Total
\$ 81,606	\$ 81,606	\$ 10,208	\$ 202,959	\$ 229,885	\$ 524,658
-	-	-	-	50,000	50,000
Total assets	\$ 81,606	\$ 10,208	\$ 202,959	\$ 279,885	\$ 574,658

### **LIABILITIES**

Due to other funds  
Due to others  
Due to retired employees  
Due to library

\$ 81,606	\$ 100	\$ -	\$ -	\$ -	\$ 81,706
-	10,108	-	-	-	10,108
-	-	202,959	-	-	202,959
-	-	-	-	279,885	279,885
Total liabilities	\$ 10,208	\$ 202,959	\$ 279,885	\$ 279,885	\$ 574,658



DENNIS, GARTLAND & NIERGARTH P.C.

Business and Financial Advisors  
*Our clients' success – our business*

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Robert C. Thompson, CPA  
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Mary F. Krantz, CPA

**REPORT ON COMPLIANCE AND INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Township Board  
Peninsula Township

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of **Peninsula Township** (the "Township") as of and for the nine months ended March 31, 2004, which collectively comprise the Township's basic financial statements and have issued our report thereon dated July 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***

As part of obtaining reasonable assurance about whether Peninsula Township's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Peninsula Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Township in a separate letter dated September 15, 2004.

Member of



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This report is intended solely for the information and use of the finance committee, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Gartland & Niergarth, P.C.*

July 26, 2004